

# THE ROLE OF PATENTS

## IN THE ADVENT OF WEB 2.0

Given the significant impact of Web 2.0-related innovations on new Internet-based initiatives, this paper seeks to identify to what extent the main developments are protected by patents and whether patents have had a leading role in the advent of Web 2.0. The article shows that the number of patent applications filed is not that important for

many of the Web 2.0 technologies in frequent use and that, of those filed, those granted are even less. The conclusion is that patents do not seem to be a relevant factor in the development of the Web 2.0 (and more generally in dynamic markets) where there is a high degree of innovation and low entry barriers for newcomers.

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"Patents aim to protect and encourage R&D. But doubt has been cast on whether stronger patent protection increases the rate of innovation."

The standard economic foundations for the patent system - or more broadly for intellectual property rights (IPRs) - are that patents are an answer to the "public goods" problem, which is that technological knowledge and creations are easier and cheaper to copy than to devise in the first place. Patents in effect privatise the public goods thereby giving potential inventors an incentive to engage in research and development [1]. Patents are a price to be paid for innovative activity although they can have a negative "welfare" effect if applied too widely around the world [2].

This economic foundation for patents, however, has not been without criticism [3]. The arguments against it are reinforced when the effects of the duration of patent protection are considered. Winter [4] shows that the trade-off between the increase in innovation and the privatisation of a public good in theory might not even

appear where there are very short-lived patents (or no patents at all).

The debate has intensified in recent years as a result of the explosion in the number of patents and the trend towards broadening the definition of patentable subject matter [5, 6] and is having an impact on the central debate regarding the appropriateness or validity of patents as a tool to promote innovation.

In order to settle the disagreements on these theories, attempts have been made to consolidate the arguments with practical studies. This is not an easy task. It is difficult to develop any specific understanding about the

effects patents might have on innovation in a particular industry. Even if we assume that all increases in innovative activity are positive, it is hard to separate patent protection-related economic effects from the economic effects of the innovation for which the patent is granted [7].

A number of studies have looked at how innovation would be affected by a reform of the patent system (or, more generally, of IPRs). The results obtained cast some doubt on whether stronger patent protection increases the rate of innovation. Helpman [8] showed that strong patent protection will increase the rate of innovation only in the short term as it raises profitability; in the long term it lowers the innovation rate as the producers tend to produce the older products. Other studies [9, 10, 11] seem to agree with this idea. For industries where innovation is sequential and complementary (as in software, semiconductors and computers), Bessen and Maskin [12] conclude that stronger protection

would limit innovation and thereby inhibit technological change.

Apart from these, only a few studies actually address the heart of the problem and assess, not the eventual reforms to the system, but the actual validity and effectiveness of the patent system itself.

In this regard, Mansfield [13] and Levin et al [14] already reached the conclusion that, aside from pharmaceuticals, firms in most industries reported that patents were neither particularly effective, nor necessary, for enabling them to appropriate returns from their R&D.

More recently, Cohen et al [15] discovered that, in manufacturing industries, patents as a mechanism to profit by invention are of less emphasis whereas secrecy and lead-times tend to be emphasised most heavily. Arundel [16] confirms that secrecy is generally better appreciated by firms, regardless of their size.

Against this backdrop, this article seeks to contribute to this debate by assessing the past and present impact of the patent mechanism on the development of the so-called Web 2.0. A quantitative study has been conducted on the number of patents (applications filed and granted) related to the technologies that underlie the applications that can be considered characteristic of Web 2.0. The assessment of the data resulting from this study enable qualitative conclusions to be drawn on the role and influence of patents in the “re-designing of the web”.

The topic is highly relevant for several reasons:

- The aforementioned lack of similar analysis.
- The role of the Web 2.0 as a spearhead of economic (and social) innovation in developing the information society.
- Software patents are the area that has generated the most controversy within the global debate on IPRs.
- Many of the most important innovations in the software industry in general, and of Web 2.0 in particular, come from relatively small firms. (A significant limitation of most of the studies reported above is that they typically focussed on large firms with an established

presence in their product markets and with access to the various assets needed to commercialise the end-product of their innovative efforts.)

The article is organised as follows. First, a brief description is provided on what is understood as Web 2.0. Next, three scenarios are identified regarding the use and impact of patents in the development of Web 2.0. This is followed by an analysis of the number of patents related to Web 2.0, highlighting some specific aspects such as the separation between patent applications filed and and those granted and the world region where the patent application has been filed. Using this data, conclusions are reached as to which of the scenarios seems to predominate.

### THE WEB 2.0 CONCEPT

Web 2.0 challenges the status quo of the software, Internet and communications industries in terms of technologies and also business models. Examples abound and involve the big players from within the Internet arena as well as emerging new players. All these players continue to invest in new applications either through internal development or through acquisitions.

Although the term Web 2.0 suggests a new version of the World

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Wide Web, it does not refer to an update to any technical specifications. In fact, many of the technological components of Web 2.0 have existed since the early days of the web; it is their combined use that makes the difference.

Web 2.0 embraces a complex and continually evolving technology set consisting mainly of server-software, content-syndication, messaging-protocols, standards-oriented browsers with plug-ins and extensions, and various client-applications (see Figure 1). The complementary approaches of such elements provide Web 2.0 sites with information-storage, creation, and dissemination capabilities way beyond the environment of Web 1.0.

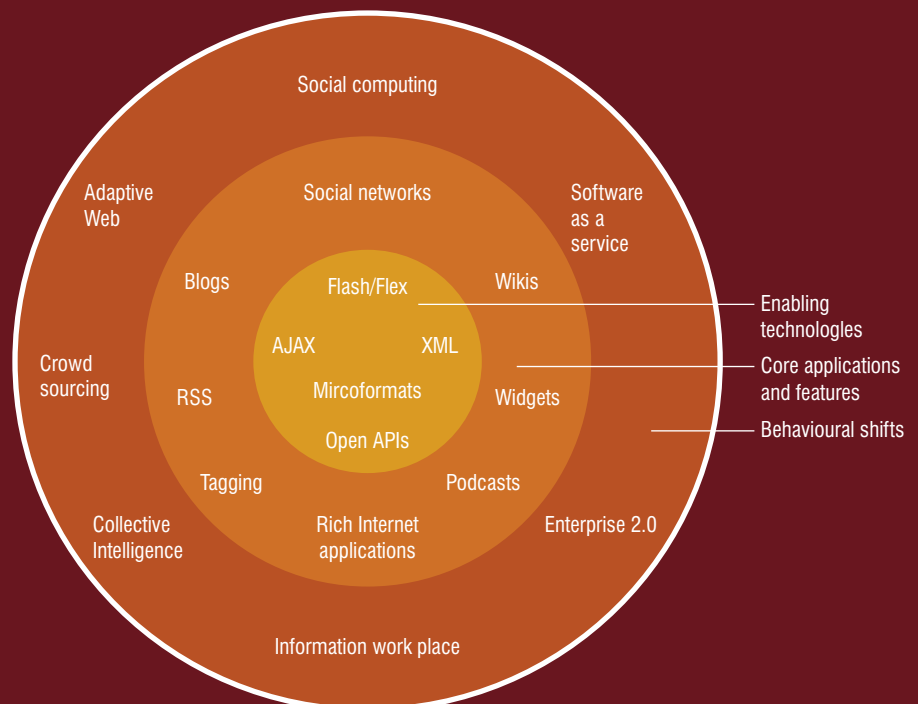


Figure 1: The “three lenses” of Web 2.0; source: Koplowitz and Young [17].



Many firms rate a head start and rapid progression up the learning curve as more effective than patents when it comes to profiting from their R&D.

## ROLE OF PATENTS IN WEB 2.0 INNOVATION - POSSIBLE SCENARIOS

At the start of the evolution to Web 2.0, it seemed that the role of patents could be decisive. Shulman [18] noted that “broad patents on software-enabled businesses are fast becoming commonplace”. Now, several years on, has this trend been confirmed (or consolidated)? What is the role of patents as regards the innovations described in the previous section? Is it an option to which application developers frequently resort, or do these applications reach the market without the existence of patents or at least without the affected patents being significant?

The answers to these questions can be classified to generate three scenarios:

- **Scenario 1:** Patents are an option that is used and their impact is significant. In this case, the number of granted patents would be high. Undoubtedly, the patent rights would be leveraged by their

holders, rights that (at least theoretically) could be brandished in front of application developers trying to use the patented resources.

- **Scenario 2:** Patents are an option that is used but their impact is not significant. In this scenario, the number of patent applications would be high, although the number of those granted would be low. This would mean that, on the one hand, companies continue to try to protect their eventual intellectual property rights through the patent system but, on the other hand, patents are not important (at least not yet) in the development of the current Web 2.0.
- **Scenario 3:** Patents are an option that is seldom used. The number of patent applications is low. The Web 2.0 is growing without patents playing any role today or in the future.

We carried out a study, as described in the next section, to try to determine which of these scenarios is closest to reality.

## ANALYSIS OF WEB TECHNOLOGIES RELATED TO PATENTS

### Methodology

Technologies regarded as the most important underlying the development of services and applications characteristic of Web 2.0 were identified and grouped into the following categories:

- Rich Internet Applications.
- Asynchronous Javascript and XML (AJAX) technologies.
- Microformats.
- Really Simple Syndication, Rich Site Summary.
- Simple Object Access Protocol (SOAP)<sup>1</sup>.
- eXtensible Access Control Markup Language (XACML)<sup>2</sup>.
- Application Programme Interfaces.
- Peer-to-Peer (P2P)<sup>3</sup> distribution.

These technologies were used as search terms in the Derwent World Patents Index® database (see [thomsonreuters.com/products\\_services/legal/legal\\_products/a-z/derwent\\_world\\_patents\\_index/](http://thomsonreuters.com/products_services/legal/legal_products/a-z/derwent_world_patents_index/)). We collected



and classified patents from 2000 to 2006. No patent applications prior to 2000 could really be considered Web 2.0-related. On the other hand, by 2006 almost every Web 2.0-type of application was already present in the market. Since 2006, whilst the number of Web 2.0 applications has grown, they have not changed radically.

### Results

Table 1 provides some interesting initial conclusions. Globally, patent applications have not been keeping up with the pace at which Web 2.0-type services and applications have been emerging and become widely used. Their number stagnated during the period 2004-2006, a fact that contrasts with the reality of market where the number of new developments and applications was increasing significantly.

Moreover, if we remove the terms “P2P” and “Extensible Markup

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Language<sup>4</sup> (XML)” from the global figures, the number of remaining patents decreases dramatically. Furthermore, there are many specific technologies with less than 10 patent applications and many others simply without any - JSON<sup>5</sup>, Microformats, Atom<sup>6</sup>, XACML, REST (Representational State Transfer).

Table 2 identifies the offices where patent applications were filed. The United States Patent and Trademark

Office (USPTO) accounts for over 40% of applications. Also widely used were the offices of the World Intellectual Property Organization (WIPO) and the European Patent Office (EPO).

Table 2 also shows the significant disparity between patents issued (applied for) and granted. In European countries (including the EPO, although with the exception of the United Kingdom) and also in the WIPO, the percentage of successful patent applications is extraordinarily low. On the other hand, the patent offices of Korea, Taiwan, Australia and United Kingdom granted over 50% of patents. In the USA, the figure is slightly over 40%.

Figure 2 shows that the applications filed in the United States tend to be more globally oriented as many are later filed in other offices. Generally speaking, this is also the case of those filed in European countries or

		2000	2001	2002	2003	2004	2005	2006	TOTAL
RIA	RIA (Rich Internet Applications)	0	0	2	3	2	0	1	8
	Asynchronous Javascript	0	0	0	0	0	0	1	1
	Macromedia, Adobe Flash	1	1	1	4	6	7	4	24
	Macromedia, Adobe Flex	0	0	0	0	0	0	0	0
	OpenLaszlo <sup>7</sup> (Open Source)	0	0	0	0	0	0	0	0
	Silverlight (Microsoft)	0	0	0	0	0	0	0	0
	JavaFxScript (Sun Micr.)	0	0	0	0	0	0	0	0
	<b>TOTAL</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>7</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>33</b>
AJAX (Asynchronous Javascript and XML)	XML (Extensible Markup Language)	116	271	435	642	748	804	787	3803
	CSS (Cascading Style Sheet)	20	23	27	31	34	37	22	194
	DOM (Document Object Model)	4	4	12	32	33	21	36	142
	Javascript <sup>8</sup>	4	7	21	27	18	37	25	139
	XHTML <sup>9</sup> (Extensible Hypertext Markup Language)	2	8	20	18	40	16	0	104
	Jscript	0	0	2	0	3	2	3	10
	ECMAScript	0	0	1	1	1	0	0	3
	JSON (JavaScript Object Notation)	0	0	0	0	0	0	0	0
	<b>TOTAL</b>	<b>146</b>	<b>313</b>	<b>518</b>	<b>751</b>	<b>877</b>	<b>917</b>	<b>873</b>	<b>4395</b>
Microformats		0	0	0	0	0	0	0	0
RSS	RSS (Really Simple Syndication, Rich Site Summary)	0	0	0	0	0	1	7	8
	Atom	0	0	0	0	0	0	0	0
SOAP (Simple Object Access Protocol)		0	0	6	23	50	57	49	185
XACML (eXtensible Access Control Markup Language)		0	0	0	0	0	0	0	0
APIs	Web Services APIs (Application Programme Interfaces)	1	1	5	3	3	7	4	24
	REST (Representational State Transfer)	0	0	0	0	0	0	0	0
P2P (Peer-to-Peer)		54	118	216	415	457	631	572	2463
<b>TOTAL</b>		<b>202</b>	<b>433</b>	<b>748</b>	<b>1199</b>	<b>1395</b>	<b>1620</b>	<b>1511</b>	<b>7108</b>
<b>TOTAL – P2P</b>		<b>148</b>	<b>315</b>	<b>532</b>	<b>784</b>	<b>938</b>	<b>989</b>	<b>939</b>	<b>4645</b>
<b>TOTAL – P2P – XML</b>		<b>32</b>	<b>44</b>	<b>97</b>	<b>142</b>	<b>190</b>	<b>185</b>	<b>152</b>	<b>842</b>

**Table 1:** Number of patent applications from 2000 to 2006 for each of the Web 2.0 underlying technologies

	Total (2000-2006)			Total – P2P (2000-2006)			Total – P2P – XML (2000-2006)		
	Issued	Granted	Total	Issued	Granted	Total	Issued	Granted	Total
Australia	13	7	20	11	5	16	4	0	4
Canada	30	2	32	22	1	23	2	0	2
China	119	28	147	89	26	115	9	6	15
Germany	52	9	61	32	6	38	7	2	9
France	66	0	66	50	0	50	9	0	9
Hungary	1	0	1	1	0	1	0	0	0
Japan	935	76	1011	742	63	805	140	7	147
Korea	311	169	480	253	143	396	63	29	92
Taiwan	13	9	22	12	7	19	2	2	4
United Kingdom	67	32	99	49	13	62	4	3	7
USA	2396	984	3380	1447	572	2019	254	102	356
EPO	442	16	458	276	4	280	44	2	46
WIPO	1223	15	1238	737	1	738	128	1	129
Research <sup>10</sup> Disclosure	93	0	93	83	0	83	22	0	22
<b>TOTAL</b>	<b>5761</b>	<b>1347</b>	<b>7108</b>	<b>3804</b>	<b>841</b>	<b>4645</b>	<b>688</b>	<b>154</b>	<b>842</b>

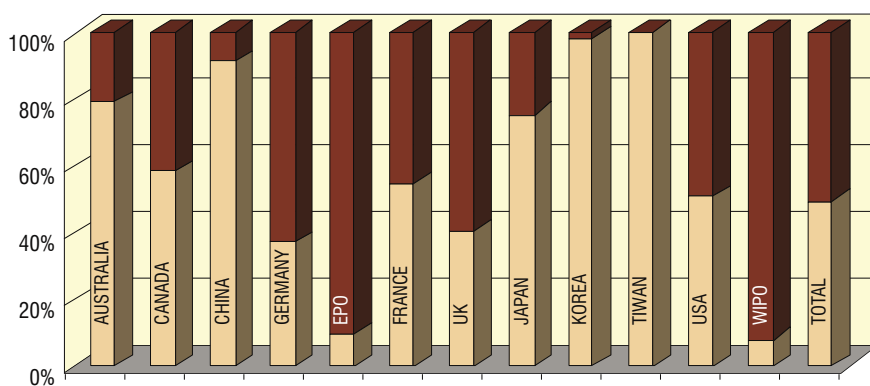
**Table 2:** Patent applications filed / granted by geographic area

## Web 2.0 technologies

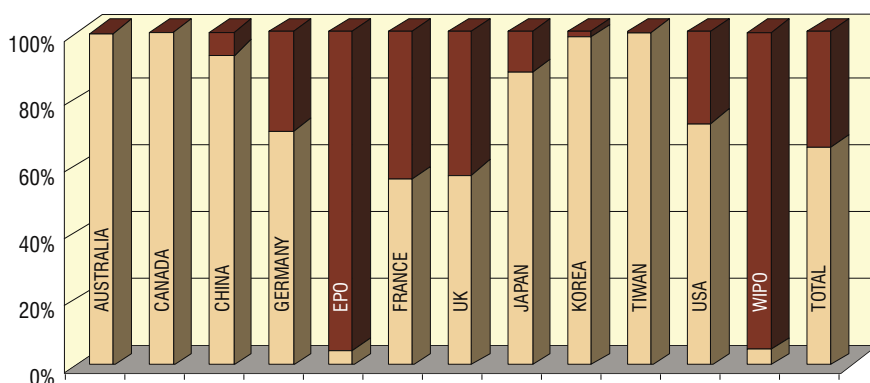
■ Applications filed in one office

■ Applications filed in more than one office

**Source:** Own elaboration



## Web 2.0 technologies - P2P - XML



**Figure 2:** Diffusion of patents (percentage one office / more than one office)

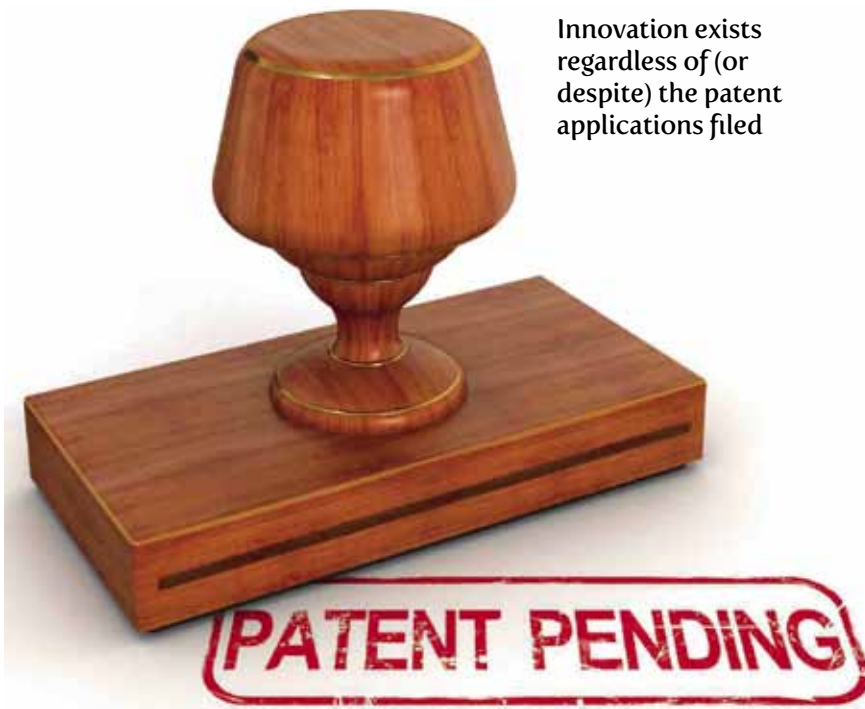
“ Successful innovations are extremely varied in Web 2.0 markets. The dynamism of these markets opens up opportunities to innovate that are very hard to find in other industries. ”

at the EPO. However, this is not the case in the Asian offices. It would be interesting to know to what degree linguistic or cultural issues can influence the fact that Asian country developers seem to focus their efforts on their own markets as opposed to the global ambition (at least as regards patents) of the Europeans and Americans.

Obviously, the figures presented must be put into context in order to reach a conclusion about their importance. There are no patent classes for software per se. Therefore, how many software patents exist depends in part on how one defines a software patent. Using a method identical to the one described above, Bessen and Hunt [19] used a series of search terms (“software” or “computer and program”) in the databases and found that over 20,000 software patents were granted each year in the USPTO, comprising about 15% of all patents.

We searched the EPO and WIPO databases using the Bessen and Hunt search terms. The results suggest that, during the 2000 to 2006 period, the number of software-related patents filed were:

- 4044 at EPO (compared to 458 using Web 2.0 technology search terms, 11.3%; 1.1% leaving aside P2P and XML).
- 6863 at WIPO (compared to 1238 using Web 2.0 technology search terms, 18%; 1.8% leaving aside P2P and XML).



**Innovation exists  
regardless of (or  
despite) the patent  
applications filed**

In both cases, the trend over the 2003 to 2006 period is clearly upward: 245 – 476 – 1322 – 1601 software-related patents filed at EPO; 340-710-2417-2750 at WIPO. This fact strikingly contrasts with the stagnation shown in our analysis of Web 2.0 technologies – precisely the period when Web 2.0 applications start flourishing.

Despite the imprecisions presented by the calculations for obtaining the total number of existing software patents, the truth is that the difference in magnitudes between software-related patents and those obtained by us specifically for Web 2.0 technologies is sufficiently important to reach a convincing conclusion: the number of technology-related patents supporting Web 2.0 seems to be, up to now, barely significant.

## AUTHORS' CONCLUSIONS

If we compare these results with the the three scenarios proposed earlier, the conclusion is that we are in “Scenario 2.5”. Indeed, this is an intermediate situation since it cannot be said that patents are a resource that is not used (Scenario 3) but, given the results, neither can it be said that patent applications are being filed intensively (Scenario 2).

What can be said (and is a feature common to Scenarios 2 and 3) is that the impact of patent application filing does not affect significantly the development of the markets. Indeed, with Web 2.0, we see daily the introduction of new functions and features. Innovation exists regardless of (or despite) the patent applications filed. How can this situation be explained?

Classical IPRs are only one of the mechanisms that companies use to protect their innovative activities [20, 21]. There are other mechanisms for appropriating the value of innovation such as: secrecy, labour contracts, lead-time advantages, costs and time required for duplication, customer relation management, exclusive contracts with suppliers and even “technological” aspects (a complex product design or the embodiment of intangibles in their products).

In the case of technological sectors, Mazzoleni and Nelson [22] conclude that, in a wide range of “high-tech” industries, firms rated a head start, establishment of effective production, sales and service facilities, and rapid progression up the learning curve, as much more effective than patents in enabling them to profit from their R&D. And focusing on software-related activities, Allison et al [23] refer to the “limited value that patents have for appropriating the value of a software innovation”.

If a broader perspective is taken, however, the protection mechanisms are only one of many institutional

and technological conditions that affect profitability and competitive success of innovators themselves.

Teece [24] argued that profits from innovation depend on the interaction of three families of factors, namely; regimes for appropriating the value (largely dictated by the nature of technological knowledge), complementary assets, and the presence or absence of a dominant paradigm. How these factors influence the link between (un)successful knowledge accumulation and market exploitation differs greatly between technology fields or sectors [25].

The markets of Web 2.0 show peculiar characteristics (global network externalities; marketing one-to-one; in many occasions, free service, and a source of indirect income) that probably reduce the number of mechanisms for appropriating the value required for successful innovation.

Exploring this idea further, successful innovations are extremely varied in Web 2.0 markets. The dynamism of these markets opens up opportunities to innovate that are very hard to find in other industries. This confirms the opinion of Dosi et al [3] for whom the rates of innovation fundamentally depend on paradigm-specific opportunities rather than on merely the conditions for appropriating the value (at least above a specific threshold) and even less so on the specific subset of appropriating mechanisms represented by IPR protection.

Also Dosi et al [3] provide an answer to the fact that, often very similar innovations, applied to services or applications that can be classified as pertaining to the Web 2.0, provide disparate results. Thus, they conclude that, although the first order determinants of the rates of innovation are born out of the technology-specific and sector-specific opportunity conditions,

## AUTHORS' CONCLUSIONS

the differential ability of individual firms to economically benefit from them stem from idiosyncratic organisational capabilities.

Interestingly, it has been pointed out that a great deal of the innovation in Web 2.0 depends on small firms. According to Allison et al [23], although patents provide little benefit to an early-stage pre-revenue start-up firm, they become increasingly important as the firm matures and begins to develop revenue streams. This is because the motives for patenting go beyond simply protecting one's own technology. Patents can be used in an offensive as well as a defensive way, aiming more at hindering competitors than protecting one's own inventions. In fact, extensive portfolios of legal rights are considered a means for entry deterrence ("strategic patenting") [26]. Additionally, patents have acquired strategic value as means to signal the enterprise's value to potential investors or improve technological image [27]. Even, sometimes, the application for a patent appears to matter more than its grant [28].

We should qualify these general statements with the specific conditions of the sector, however. Best

practices to manage innovation vary by time-to-market [29]. Moreover, in the specific case of ICT-related markets, Dosi et al [3] suggest that strong IPRs did not play a pivotal role either in the emergence of ICT or as a means of value generation. In the early stage of those sectors, it might have been the very weakness of the patent regime that spurred their rapid growth, whereas the strengthening of the IPR regime in recent years might well have been a consequence, rather than a cause, of the fast pace at which the ICT sector expanded.

Therefore, we conclude that the role of patents does not seem to be truly relevant in Web 2.0 markets. This conclusion could be extended to dynamic markets, with many participating agents, a high degree of innovations appearing and small entry barriers (as well as short lead times) separating them from the consumer. However, this conclusion must not be extended to markets with other characteristics: mature markets, with a restricted competition or where the arrival of the product in the market requires a production process where the role of standards is more important.

## ABBREVIATIONS

AJAX	Asynchronous JavaScript And XML	USPTO	United States Patent and Trademark Office
EPO	European Patent Office	WIPO	World Intellectual Property Organization
IPR	Intellectual Property Right	XACML	eXtensible Access Control Markup Language
JSON	Javascript Object Notation	XML	Extensible Markup Language
P2P	Peer-to-Peer		

## FOOTNOTES

- <sup>1</sup> SOAP describes a model for packing Extensible Markup Language (XML) enquiries and responses. SOAP messaging is used to enable exchange of a variety of XML information between server and client computers.
- <sup>2</sup> XACML is a declarative access control policy language implemented in XML and a processing model, describing how to interpret the policies.
- <sup>3</sup> P2P is a form of file sharing where users trade files with each other, versus downloading them from a centralized server. Peer-to-peer networking employs a system in which each user can see the files that every other connected user has to share.
- <sup>4</sup> XML is an open standard for exchanging structured documents and data over the Internet that was introduced by the World Wide Web Consortium (W3C) in November 1996.
- <sup>5</sup> JSON (Javascript Object Notation) is used for data interchange between programs, an area in which the ubiquitous XML is not too well-suited. JSON is lightweight and works extremely cleanly with languages including JavaScript, Python, Java, C++, and many others.
- <sup>6</sup> Atom is the name applied to a pair of related standards. The Atom Syndication Format is an XML language used for web feeds, while the Atom Publishing Protocol (referred to as "AtomPub" for short) is a simple HTTP-based protocol for creating and updating Web resources.
- <sup>7</sup> OpenLaszlo is an open source platform for the development and delivery of web applications with a usable human interface.
- <sup>8</sup> Javascript is a scripting language produced by Netscape for use within HTML Web pages.
- <sup>9</sup> XHTML has the same depth of expression as HTML, but also conforms to XML syntax.
- <sup>10</sup> Research Disclosure is an international publication service that allows researchers and inventors to establish an invention as Prior Art, preventing others from patenting the idea.



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